



Interim Report  
2009

**TONIC**

東方實業控股有限公司  
Tonic Industries Holdings Limited  
(Stock Code : 0978)

## CORPORATE INFORMATION

### Directors

#### Executive Directors

Mr. LING Siu Man, Simon  
*(Chairman & Managing Director)*  
Mr. WONG Ki Cheung  
Ms. LI Fung Ching, Catherine  
Mr. LAM Kwai Wah

#### Independent Non-executive Directors

Mr. PANG Hon Chung  
Mr. CHENG Tsang Wai  
Dr. CHUNG Hing Wah, Paul

### Registered Office

P.O. Box 309 GT  
Ugland House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### Head Office and Principal Place of Business

Unit B, 10th Floor  
Summit Building  
30 Man Yue Street  
Hung Hom  
Kowloon  
Hong Kong

### Company Secretary

Ms. WONG Pui Shan, Cammy,  
*FCCA, CPA, ACIS, ACS*  
(resigned on 11 December 2009)

### Legal Advisor

Richards Butler

### Auditors

Ernst & Young

### Audit Committee

Mr. PANG Hon Chung *(Chairman)*  
Mr. CHENG Tsang Wai  
Dr. CHUNG Hing Wah, Paul

### Remuneration Committee

Mr. CHENG Tsang Wai *(Chairman)*  
Mr. PANG Hon Chung  
Ms. LI Fung Ching, Catherine

### Executive Committee

Mr. LING Siu Man, Simon *(Chairman)*  
Mr. WONG Ki Cheung  
Ms. LI Fung Ching, Catherine  
Mr. LAM Kwai Wah

### Principal Bankers

Hang Seng Bank Limited  
The Hongkong and Shanghai Banking  
Corporation Limited

### Share Registrars and Transfer Office

In Hong Kong  
Tricor Tengis Limited  
26/F, Tesbury Centre  
28 Queen's Road East  
Hong Kong

In Cayman Islands  
Butterfield Fund Services  
(Cayman) Limited  
Butterfield House  
68 Fort Street  
PO Box 705  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### Websites

[www.tonic.com.hk](http://www.tonic.com.hk)  
[www.irasia.com/listco/hk/tonic](http://www.irasia.com/listco/hk/tonic)

### Stock Code

978



The board of directors (the "Board") of Tonic Industries Holdings Limited (the "Company") announces that the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2009 (the "Period") together with the comparative figures for the previous corresponding period are as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>For six months ended 30 September</b>	
		<b>2009 Unaudited</b>	2008 Unaudited (restated)
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
<b>CONTINUING OPERATIONS</b>			
Revenue	2	<b>436,823</b>	1,359,266
Cost of sales		<b>(695,127)</b>	(1,277,364)
		<b>(258,304)</b>	81,902
Gross (loss)/profit		<b>6,496</b>	29,254
Gain on disposal of properties		<b>14,718</b>	221
Other income and gains		<b>(850)</b>	(2,208)
Selling and distribution costs		<b>(27,616)</b>	(42,438)
Administrative expenses		<b>(9,616)</b>	(16,503)
Finance costs			
(Loss)/Profit before tax	3	<b>(275,172)</b>	50,228
Tax	4	<b>10,807</b>	(504)
(Loss)/Profit for the Period from continuing operation		<b>(264,365)</b>	49,724
<b>DISCONTINUED OPERATION</b>			
Profit for the Period from a discontinued operation		<b>1,386</b>	1,058
(Loss)/Profit for the Period attributable to equity holders of the Company		<b>(262,979)</b>	50,782
Interim dividend		<b>Nil</b>	Nil
Interim dividend per share		<b>N/A</b>	N/A
Earnings per share attributable to equity holders of the Company	5		
• Basic			
– For (loss)/profit for the period		<b>(24.9) cents</b>	4.8 cents
– For (loss)/profit from continuing operations		<b>(24.9) cents</b>	4.7 cents
• Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2009

	<b>For six months ended 30 September</b>	
	<b>2009</b>	2008
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
(LOSS)//PROFIT FOR THE PERIOD	<b>(262,979)</b>	50,782
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	<b>307</b>	5,736
Written back on disposal	<b>344</b>	190
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	<b>(262,328)</b>	56,708



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### Attributable to equity holders of the Company

	Share		Asset	Exchange		Proposed		
	Issued	premium	Contributed	revaluation	fluctuation	Retained	final	Total
	capital	account	surplus	reserve	reserve	profits	dividend	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

#### For the six months ended 30 September 2009

At 1 April 2009	105,789	71,388	280	97,711	7,180	104,332	-	386,680
Exchange realignment	-	-	-	-	307	-	-	307
Written back on disposal	-	-	-	(2,892)	-	3,236	-	344
Net loss for the period	-	-	-	-	-	(262,979)	-	(262,979)
Total comprehensive income for the period and at 30 September 2009	105,789	71,388	280	94,819	7,487	(155,411)	-	124,352

#### For the six months ended 30 September 2008

At 1 April 2008	105,789	71,388	280	98,165	8,463	277,665	-	561,750
Exchange realignment	-	-	-	-	5,736	-	-	5,736
Written back on disposal	-	-	-	(1,364)	-	1,554	-	190
Net profit for the period	-	-	-	-	-	50,782	-	50,782
Total comprehensive income for the period and at 30 September 2008	105,789	71,388	280	96,801	14,199	330,001	-	618,458

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 September 2009 Unaudited HK\$'000	31 March 2009 Audited HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		633,026	661,300
Prepaid land lease payments		36,022	41,091
Intangible assets		6,440	10,345
Deposits for acquisition of items of property, plant and equipment		53	53
		<b>675,541</b>	<b>712,789</b>
<b>CURRENT ASSETS</b>			
Inventories		150,698	353,832
Accounts and bills receivables	6	41,059	68,495
Factored accounts receivables	7	23,835	53,394
Prepayments, deposits and other receivables		22,023	16,418
Prepaid land lease payments		778	909
Equity investments at fair value through profit or loss		4,512	2,592
Tax recoverable		1,092	–
Derivative financial instruments		–	382
Cash and bank balances		4,604	36,758
		<b>248,601</b>	<b>532,780</b>
<b>CURRENT LIABILITIES</b>			
Accounts payables	8	311,011	342,022
Accrued liabilities and other payables		48,005	43,548
Interest-bearing bank and other borrowings		282,731	284,033
Bank advances on factored accounts receivables		15,484	53,394
Tax payable		3,103	21,265
		<b>660,334</b>	<b>744,262</b>
<b>NET CURRENT LIABILITIES</b>		<b>(411,733)</b>	<b>(211,482)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>263,808</b>	<b>501,307</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		87,021	61,144
Net deferred tax liabilities		52,435	53,483
		<b>139,456</b>	<b>114,627</b>
		<b>124,352</b>	<b>386,680</b>
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Issued capital	9	105,789	105,789
Reserves		18,563	280,891
		<b>124,352</b>	<b>386,680</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>For six months ended 30 September</b>	
	<b>2009</b>	2008
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Net cash (outflow)/inflow from operating activities	<b>(42,612)</b>	28,695
Net cash inflow from investing activities	<b>23,792</b>	7,569
Net cash outflow from financing activities	<b>(13,514)</b>	(12,861)
(Decrease)/Increase in cash and cash equivalents	<b>(32,334)</b>	23,403
Cash and cash equivalents at 1 April	<b>26,733</b>	26,732
Effect of foreign exchange rate changes, net	<b>(589)</b>	248
Cash and cash equivalents at 30 September	<b>(6,190)</b>	50,383
Represented by:		
Cash and bank balances	<b>4,604</b>	50,383
Bank overdrafts, secured	<b>(10,794)</b>	–
	<b>(6,190)</b>	50,383



## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1a. Basis of presentation

During the period ended 30 September 2009, the Group incurred a net loss of HK\$262,979,000 and the Group had net current liabilities of approximately HK\$411,733,000 as at 30 September 2009. In order to improve the Groups' financial position, immediate liquidity and cash flows and otherwise to sustain the Group as a going concern, the Group is implementing the measures: (i) arranging further bank loans; (ii) arranging investor to inject cash into the Group to enlarge the equity base; (iii) scaling down the operation scale.

The directors of the Company consider that the Group will have sufficient working capital to finance its operations and financial obligations, and accordingly, are satisfied that it is appropriate to prepare the financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern. This condensed consolidated interim financial statements are not reviewed by auditor but reviewed by audit committee.

### 1b. Basis of Preparation and Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements of the Group for the year ended 31 March 2009, except in relation to the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements.

HKFRSs (Amendments)	Improvements to HKFRSs 2008
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation



The above new/revised HKFRSs are mandatory for the first time for the financial year beginning on 1 April 2009. The adoption of the new/revised HKFRSs, except for HKAS 1 (Revised) and HKFRS 8 as described below, had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented. Accordingly, no prior period adjustment has been recognized.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard also introduces the statement of comprehensive income, with all items of income and expenses recognized in profit or loss, together with all other items of recognized income and expenses recognized directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

HKFRS 8 replaces HKAS 14 "Segment Reporting", and specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. Due to the adoption of HKFRS 8 during the current period, certain comparative amounts have been restated to confirm with the current period's presentation.

## 2. Segment Information

The Group is solely engaged in manufacture and trading of consumer electronic products. In accordance with HKFRS 8 "Operating Segments" adopted by the Group during the Period, the Group determines that there are five operating segments, based on location of customers (the destination of sales), including Mainland China, Europe, Americas and Asia. These segments are managed separately as each segment is subject to risks and returns that are different from each other.

The revenue and the result of each operating segment for the six month ended 30 September 2009 are as follows:

	Revenue		Segment result	
	Six months ended 30 September (Unaudited)		Six months ended 30 September (Unaudited)	
	2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Mainland China	228,887	197,362	(55,602)	242
Europe	67,656	218,547	(67,979)	13,970
Americas	124,301	973,340	(118,964)	62,865
Asia and others	15,979	156,457	(16,995)	9,978
	<u>436,823</u>	<u>1,545,706</u>	<u>(259,540)</u>	<u>87,055</u>
Other income			22,391	27,996
Unallocated corporate expenses			(27,725)	(46,965)
Finance expenses			(9,615)	(16,654)
(Loss)/Profit before tax			(274,489)	51,432
Tax			11,510	650
(Loss)/Profit for the period			<u>(262,979)</u>	<u>52,082</u>



### 3. (Loss)/Profit before Tax

	<b>For the six months ended 30 September</b>	
	<b>2009</b>	2008
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
(Loss)/profit before tax is arrived at after charging/(crediting):		
Amortisation of trademarks	–	141
Amortisation of research and development costs	<b>3,905</b>	5,867
Depreciation	<b>25,112</b>	32,991
Interest on interest-bearing bank borrowings		
– From continuing operations	<b>9,616</b>	16,503
– From discontinued operation	–	151
	<hr/>	<hr/>
Gain on disposal of properties	<b>(6,496)</b>	(29,254)
Fair value (gain)/loss on equity investments at fair value through profit or loss	<b>(1,920)</b>	1,200
Interest income	<b>(12)</b>	(71)
	<hr/>	<hr/>

### 4. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislations, interpretations and practices in respect thereof.

### 5. Earnings Per Share Attributable to Equity Holders of the Company

The calculation of basic earnings per share for the Period is based on the loss for the Period attributable to equity holders of the Company of HK\$262,979,000 (2008: profit HK\$50,782,000) and the weighted average of 1,057,889,962 ordinary shares (2008: 1,057,889,962 shares) in issue during the Period.

There is no diluted earnings per share for the Period since the Company has no dilutive potential ordinary share.



## 6. Accounts and Bills Receivables

The aged analysis of the Group's accounts and bills receivables as at the balance sheet date is as follows:

	<b>30 September 2009 Unaudited HK\$'000</b>	31 March 2009 Audited HK\$'000
0 – 30 days	22,833	45,221
31 – 60 days	7,137	7,948
61 – 90 days	299	11,192
Over 90 days	10,790	4,134
	<hr/> <b>41,059</b> <hr/>	<hr/> 68,495 <hr/>

The Group's trading terms with its customers are mainly on credit and sight letter of credit. The credit period is generally 30 days, extending up to 90 days for major customers. The Group's accounts and bills receivables are non-interest-bearing and their carrying amounts approximate to their fair values.

## 7. Factored Accounts Receivables

The aged analysis of the Group's factored accounts receivables as at the balance sheet date is as follows:

	<b>30 September 2009 Unaudited HK\$'000</b>	31 March 2009 Audited HK\$'000
0 – 30 days	–	23,493
31 – 60 days	–	7,276
61 – 90 days	–	2,993
Over 90 days	23,835	9,632
	<hr/> <b>23,835</b> <hr/>	<hr/> 53,394 <hr/>

The maturity date of the factored accounts receivables range from 60 to 90 days. No impairment is made on the factored accounts receivables.



## 8. Accounts Payables

The aged analysis of the Group's accounts payables as at the balance sheet date is as follows:

	<b>30 September 2009 Unaudited HK\$'000</b>	31 March 2009 Audited HK\$'000
0 – 30 days	<b>50,092</b>	123,488
31 – 60 days	<b>36,722</b>	24,509
61 – 90 days	<b>7,299</b>	7,346
Over 90 days	<b>216,898</b>	186,679
	<hr/> <b>311,011</b> <hr/>	<hr/> 342,022 <hr/>

The Group's accounts payables are non-interest-bearing and are on 30 days to 120 days open account basis. The carrying amounts of the accounts payables approximate to their fair values.

## 9. Share Capital

	<b>30 September 2009 Unaudited HK\$'000</b>	31 March 2009 Audited HK\$'000
<i>Authorised:</i>		
3,000,000,000 (31 March 2009: 3,000,000,000) ordinary shares of HK\$0.10 each	<hr/> <b>300,000</b> <hr/>	<hr/> 300,000 <hr/>
<i>Issued and fully paid:</i>		
1,057,889,962 (31 March 2009: 1,057,889,962) ordinary shares of HK\$0.10 each	<hr/> <b>105,789</b> <hr/>	<hr/> 105,789 <hr/>



## 10. Contingent Liabilities

On 11 November 2008, Thomson Hong Kong Holdings Limited ("Plaintiff"), a former customer of the Group, filed a writ of summons with the High Court of Hong Kong against the Company and two of its indirect wholly-owned subsidiaries namely, Tonic Digital Products Limited and Tonic Electronics Limited (collectively known as the "Defendants"), in respect of disputes relating, inter alia, goods returned for refund by the Plaintiff, claiming damages in the sum of US\$4,289,664.15 (approximately HK\$33,244,897.16) together with interests. On 31 December 2008, a counterclaim was submitted by the Group against the Plaintiff the sum of US\$0.3 million (approximately HK\$2.5 million) being default to pay and settle goods sold and supplied by the Group (the "Counterclaim"). The Plaintiff filed its reply and defence to the Counterclaim on 17 March 2009. As at the date of approval of these financial statements, the parties are to attend to resolve interlocutory matters before the case is to be fixed. In the opinion of the directors, the case is still in its preliminary stage and it is premature to speculate the outcome of such claims. Therefore, no provision has been made.

On 14 August 2009, J.C. Electronics Co. Limited issued a writ of summons in the High Court of Hong Kong against two indirect wholly-owned subsidiaries, namely Tonic Electronics Limited and Tonic Trading Development Limited respectively, in respect of goods sold and delivered in the amount of HK\$4,743,443.67 and HK\$10,541,664.26 respectively. Defence was filed and the actions are still in preliminary stage so it is premature to evaluate the probability of outcome. No provision has been made.

On 12 September 2009, Super Victory Enterprises Limited issued a writ of summons in the District Court of Hong Kong against an indirect wholly-owned subsidiary, namely Tonic Electronics Limited ("TEL"), in respect of goods sold and delivered in the amount of US\$85,987.45 (approximately HK\$666,230.76). TEL is currently preparing the defence. Since the dispute is at preliminary stage, no provision has been made.

On 24 August 2009, Tonic Electronics Limited ("TEL") and Tonic Digital Products Limited ("TDPL"), indirect wholly-owned subsidiaries, issued a writ of summons in the High Court of Hong Kong against the former customer Alco Holdings Limited for goods sold and delivered in the sum of US\$820,912.06 (approximately HK\$6,360,426.64) for TEL and US\$288,977 (approximately HK\$2,238,993.80) for TDPL. It is in the stage of exchange of documents.

On 9 December 2009, Yan Hsin Da Electronics Limited issued a writ of summons in the District Court of Hong Kong against a direct wholly-owned subsidiary of the Company, namely Tonic Technology Limited ("TTL"), in respect of goods sold and delivered in the amount of US\$31,395.6 (approximately HK\$243,315.9). TTL is currently preparing the defence.



On 14 September 2009, Multimedia Devices Limited issued a writ of summons in the High Court of Hong Kong against two indirect wholly-owned subsidiaries, namely Tonic Electronics Limited ("TEL") and Tonic Digital Products Limited ("TDPL"), in respect of returned goods in the amount of US\$1,167,598.78 (approximately HK\$9,046,555.35) for TEL and US\$213,146.70 (approximately HK\$1,651,460.63) for TDPL. TEL and TDPL are currently preparing the defence. Since the dispute is at preliminary stage, no provision has been made.

On 23 November 2009, Technotrend Trading Limited, indirect wholly-owned subsidiary, issued a writ of summons in the High Court of Hong Kong against former customer Technotrend GmbH for goods sold and delivered in the sum of US\$2,541,464.29 (approximately HK\$19,691,265.32). The case is in the stage of service of the Writ of Summons against Technotrend GmbH.

On 13 November 2009, Stmicroelectronics Asia Pacific PTE Limited issued a writ of summons in the High Court of Hong Kong against an indirect wholly-owned subsidiary, namely Tonic Electronics Limited ("TEL"), in respect of goods sold and delivered in the amount of US\$279,741.70 (approximately HK\$2,167,438.69). TEL is currently preparing the defence. Since the dispute is at preliminary stage, no provision has been made.

On 16 November 2009, Fung Shing Steel Company Limited issued a writ of summons in the District Court of Hong Kong against a direct wholly-owned subsidiary, namely Gold Beam Developments Limited ("GB"), in respect of goods sold and delivered in the amount of HK\$429,364.73. GB is currently preparing the defence. Since the dispute is at preliminary stage, no provision has been made.

On 20 November 2009, Max Components Limited issued a writ of summons in the District Court of Hong Kong against an indirect wholly-owned subsidiary, namely Tonic Trading Development Limited ("TTDL"), in respect of goods sold and delivered in the amount of US\$56,346.30 (approximately HK\$436,571.13). TTDL is currently preparing the defence. Since the dispute is at preliminary stage, no provision has been made.

On 27 November 2009, Lucky Harvest (HK) Company Limited issued a writ of summons in the High Court of Hong Kong against an indirect wholly-owned subsidiary of the Company, namely Tonic Electronics Limited ("TEL"), in respect of goods sold and delivered in the amount of HK\$1,121,066.24. TEL is currently preparing the defence. Since the dispute is at preliminary stage, no provision has been made as at 30 September 2009.

## 11. Commitments

- (a) Capital commitments in respect of fixed assets

	<b>30 September 2009 Unaudited HK\$'000</b>	31 March 2009 Audited HK\$'000
Contracted, but not provided for: Equipment and tools	<b>53</b>	53

- (b) As at 30 September 2009, the Group had outstanding forward currency contracts with an aggregate notional amount of approximately HK\$23 million (31 March 2009: HK\$162 million) to hedge payables denominated in United States dollars.

## 12. Comparative Amounts

Certain comparative amounts have been reclassified to conform with the presentation and accounting treatment for the Period.



## INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend in respect of the Period (2008: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Group Results

The Group recorded a turnover of HK\$437 million, EBITDA of HK\$(236) million and loss attributable to shareholders of HK\$263 million for the six-month ended 30 September 2009, compared to HK\$1,546 million, HK\$107 million and HK\$51 million respectively for the corresponding period.

### Business Review

In the Period 2009, the Group continued to be affected by the looming global financial crisis. Sales of the Group for the Period under review, especially export sales to markets in Europe and Americas plunged by 82% and working capital pressure increased against the credit crunch. In addition, the US government stopped subsidising consumers in purchasing digital set top boxes and that further dampened sales of set top boxes to the market. Also, the Group has closed the home appliances division last year, which accounted for around 12% of its total sales in last corresponding period.

Although export sales dropped, the Group continued to maintain growth in domestic sales of set top boxes during the Period. Benefiting from the move of the PRC Government to subsidise purchase of home appliances by rural households (家電下鄉政策), the Group recorded sales of set top boxes and other electronic products in the domestic market.

Loss for the Period was mainly the result of the following factors:

Firstly, sales dropped by 72% as compared with the last corresponding period and could not cover fixed costs of the Group. Fixed production overheads which did not come down as desired resulted in a huge operating loss. The Group has started to downsizing its operations aiming to minimise production overheads.

Secondly, the Group decided to suspend operation of some of the factories in the PRC during the Period and had written off certain stock, amounting to HK\$108 million, in compliance with prevailing accounting standards.



## Prospects

The Group anticipates continuous steady growth for the domestic market and hence shall focus on pushing domestic sales in coming years. All loss-incurring companies will be closed eventually to ensure the Group operates in an optimum scale. The Group has been active in finding ways to turn around its business and improve working capital.

## Business Development

The Group will focus on the domestic market and continue to develop high-end set top boxes. It will also develop own brand electrical products and sell them to rural households.

## Liquidity and Financial Resources

As at 30 September 2009, the net asset value of the Group attributable to equity holders amounted to approximately HK\$124 million (31 March 2009: approximately HK\$387 million), including cash and bank balances of approximately HK\$5 million (31 March 2009: approximately HK\$37 million) which were denominated mainly in Hong Kong dollars.

The trade receivable balance as at 30 September 2009 was approximately HK\$65 million (31 March 2009: approximately HK\$122 million), including factored accounts receivables of HK\$24 million (31 March 2009: approximately HK\$53 million). The factored receivables were covered by credit insurance and all other trade receivables were on letter of credit.

As at 30 September 2009, the Group's aggregate borrowings was approximately HK\$385 million (31 March 2009: approximately HK\$399 million), of which approximately HK\$382 million was bank borrowings and approximately HK\$3 million was for obligations under finance leases. The borrowings were denominated in Hong Kong dollars and bore interest mainly on HIBOR basis. The gearing ratio of the Group, calculated based on net borrowings over shareholder funds, was 306% (31 March 2009: 94%).

The Group is not exposed to any material currency fluctuation risks, as most of its receivables as well as payables are in US dollars. It has natural hedges against currency risks and adheres to the policy of not engaging in speculative activities. In addition, the Group's Renminbi receipts from domestic sales could offset Renminbi expenses of factories in the PRC.

## Pledge of Assets

As at 30 September 2009, certain of the Group's property, plant and equipment and prepaid land lease payments with a net book value of approximately HK\$171 million (31 March 2009: approximately HK\$220 million) were pledged to secure general banking facilities.



## Litigation

On 11 November 2008, Thomson Hong Kong Holdings Limited ("Plaintiff"), a former customer of the Group, issued a writ of summons in the High Court of Hong Kong against the Company and two of its indirect wholly-owned subsidiaries, namely Tonic Digital Products Limited and Tonic Electronics Limited (collectively known as "Defendants"), in respect of disputes relating, inter alia, goods returned for refund by the Plaintiff, claiming damages in the sum of US\$4,289,664.15 (approximately HK\$33,244,897.16) together with interest. The Defendants filed Defence and Counterclaim and the Plaintiff filed Reply and Defence to Counterclaim on 17 March 2009. The claims of the Plaintiff relate, inter alia, to refund of the purchase price of goods sold and delivered by Tonic Digital Products Limited to the Plaintiff. Based on the case pleaded by the Plaintiff and the information now available to the Defendants, the Defendants have a defence with merits to such claim. The parties are attempting to resolve interlocutory matters before the trial date for the case is fixed.

On 14 August 2009, J.C. Electronics Co. Limited issued a writ of summons in the High Court of Hong Kong against two indirect wholly-owned subsidiaries of the Company, namely Tonic Electronics Limited and Tonic Trading Development Limited respectively, regarding goods sold and delivered in the amount of HK\$4,743,443.67 and HK\$10,541,664.26 respectively. Defence was filed and the actions are still in preliminary stage and so it is too early to evaluate the probable outcome.

On 12 September 2009, Super Victory Enterprises Limited issued a writ of summons in the District Court of Hong Kong against an indirect wholly-owned subsidiary of the Company, namely Tonic Electronics Limited ("TEL"), in respect of goods sold and delivered in the amount of US\$85,987.45 (approximately HK\$666,230.76). TEL is currently preparing the defence.

On 24 August 2009, Tonic Electronics Limited ("TEL") and Tonic Digital Products Limited ("TDPL"), indirect wholly-owned subsidiaries of the Company, issued a writ of summons in the High Court of Hong Kong against former customer Alco Holdings Limited for goods sold and delivered in the sum of US\$820,912.06 (approximately HK\$6,360,426.64) for TEL and US\$288,977 (approximately HK\$2,238,993.80) for TDPL. The action is in the preliminary stage with exchange of documents in progress.

On 14 September 2009, Multimedia Devices Limited issued a writ of summons in the High Court of Hong Kong against two indirect wholly-owned subsidiaries of the Company, namely Tonic Electronics Limited ("TEL") and Tonic Digital Products Limited ("TDPL"), in respect of returned goods in the amount of US\$1,167,598.78 (approximately HK\$9,046,555.35) for TEL and US\$213,146.70 (approximately HK\$1,651,460.63) for TDPL. TEL and TDPL are currently preparing the defence.



On 23 November 2009, Technotrend Trading Limited, an indirect wholly-owned subsidiary of the Company, issued a writ of summons in the High Court of Hong Kong against former customer Technotrend GmbH for goods sold and delivered in the sum of US\$2,541,464.29 (approximately HK\$19,691,265.32). The case is in the stage of service of the Writ of Summons against Technotrend GmbH.

On 13 November 2009, Stmicroelectronics Asia Pacific PTE Limited issued a writ of summons in the High Court of Hong Kong against an indirect wholly-owned subsidiary of the Company, namely Tonic Electronics Limited ("TEL"), in respect of goods sold and delivered in the amount of US\$279,741.70 (approximately HK\$2,167,438.69). TEL is currently preparing the defence. Since the dispute is at preliminary stage and after the balance sheet date, no provision has been made as at 30 September 2009.

On 16 November 2009, Fung Shing Steel Company Limited issued a writ of summons in the District Court of Hong Kong against a direct wholly-owned subsidiary of the Company, namely Gold Beam Developments Limited ("GB"), in respect of goods sold and delivered in the amount of HK\$429,364.73. GB is currently preparing the defence. Since the dispute is at preliminary stage and after the balance sheet date, no provision has been made as at 30 September 2009.

On 20 November 2009, Max Components Limited issued a writ of summons in the District Court of Hong Kong against an indirect wholly-owned subsidiary of the Company, namely Tonic Trading Development Limited ("TTDL"), in respect of goods sold and delivered in the amount of US\$56,346.30 (approximately HK\$436,571.13). TTDL is currently preparing the defence. Since the dispute is at preliminary stage and after the balance sheet date, no provision has been made as at 30 September 2009.

On 27 November 2009, Lucky Harvest (HK) Company Limited issued a writ of summons in the High Court of Hong Kong against an indirect wholly-owned subsidiary of the Company, namely Tonic Electronics Limited ("TEL"), in respect of goods sold and delivered in the amount of HK\$1,121,066.24. TEL is currently preparing the defence. Since the dispute is at preliminary stage and after the balance sheet date, no provision has been made as at 30 September 2009.

On 9 December 2009, Yan Hsin Da Electronics Limited issued a writ of summons in the District Court of Hong Kong against a direct wholly-owned subsidiary of the Company, namely Tonic Technology Limited ("TTL"), in respect of goods sold and delivered in the amount of US\$31,395.6 (approximately HK\$243,315.9). TTL is currently preparing the defence. Since the dispute is at preliminary stage and after the balance sheet date, no provision has been made as at 30 September 2009.



## Employee relations

As at 30 September 2009, the Group had approximately 2,400 employees in Hong Kong and the PRC (as at 31 March 2009: 3,700). Salaries and wages for the year ended 30 September 2009 totalled approximately HK\$49 million (year ended 31 March 2009: approximately HK\$93 million). Employees' remuneration packages are generally structured by reference to market conditions, individual qualifications and performance. In addition to basic salary payment, other benefits offered to employees include contributions to mandatory provident fund, group medical insurance and group personal accident insurance. Employees may also to be granted share options at the discretion of the board of directors under the Company's share option scheme.

## DIRECTORS' INTERESTS IN SHARES

At 30 September 2009, the interests of the directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

### a) Long positions in ordinary shares of the Company

<b>Name of director</b>	<b>Nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's issued share capital</b>
Ling Siu Man, Simon	Corporate <i>(Note)</i>	618,492,476	58.46
Wong Ki Cheung	Personal	1,749,000	0.17
Li Fung Ching, Catherine	Personal	2,142,000	0.20
Cheng Tsang Wai	Personal	1,626,000	0.15
		624,009,476	58.98

*Note:* These shares were held by Success Forever Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Ling.



b) **Associated corporation**

At 30 September 2009, Mr. Ling personally held 3,000 non-voting deferred shares of HK\$100 each of Tonic Electronics Limited, a subsidiary of the Company.

The interests of the directors in the share options of the Company are separately disclosed in the section "Share Option Scheme" below.

Save as disclosed above, as at 30 September 2009, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from as disclosed in the sections "Directors' Interests in Shares" above and "Share Option Scheme" below, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## **SHARE OPTION SCHEME**

Under a share option scheme adopted by the Company on 18 September 1997 ("Share Option Scheme"), the directors may, at any time during ten years, grant share options to employees and executive directors of the Group to subscribe for shares of the Company.



The following table discloses movements in the Company's share option during the Period:

	At 1 April 2009	Number of outstanding share options lapsed during the Period	At 30 September 2009	Date of grant of options	Exercise period of share options	Exercise price of share options HK\$	Closing price of share immediately before date of grant
<b>Directors:</b>							
Ling Siu Man, Simon	15,000,000	-	15,000,000	07-04-00	10-04-00 to 09-04-10	0.467	0.870
Wong Ki Cheung	2,715,000	-	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467	0.870
Li Fung Ching, Catherine	2,715,000	-	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467	0.870
Lam Kwai Wah	1,650,000	-	1,650,000	07-04-00	10-04-00 to 09-04-10	0.467	0.870
	<u>22,080,000</u>	<u>-</u>	<u>22,080,000</u>				
<b>Other employees:</b>							
In aggregate	<u>25,050,000</u>	<u>(4,200,000)</u>	<u>20,850,000</u>	07-04-00	10-04-00 to 09-04-10	0.467	
	<u>47,130,000</u>	<u>(4,200,000)</u>	<u>42,930,000</u>				

No theoretical value of share options is disclosed as no share options were granted during the Period.

No options were granted or exercised during the Period.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 30 September 2009, the following parties having interests of 5% or more of the issued share capital of the Company were recorded in the register of interests kept by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholder	Nature of interests	Number of ordinary shares held	Percentage of the Company's issued share capital (%)
Success Forever Limited (Note 1)	Beneficially owned	618,492,476	58.46

Notes:

- (1) The entire issued share capital of Success Forever Limited is beneficially owned by Mr. Ling as disclosed in the section "Directors' Interests in Shares" above.



Save as disclosed above, as at 30 September 2009, no person, other than the directors, whose interests are set out in the section "Directors' Interests in Shares" above, had registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the Period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the Period with the management of the Group.

## **CODE OF CORPORATE GOVERNANCE PRACTICES**

The Group is committed to ensure a high standard of corporate governance. For the six months ended 30 September 2009, the Group has applied the principles and complied with the code provisions ("Code Provisions") set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited with the following deviations:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Ling is the chairman and chief executive officer of the Group. He is responsible for the Group's overall strategic planning, management of the Board's affairs. The Board considers that this structure is more effective and efficient in running the business. The Board believes that Mr. Ling's appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Group.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. One of the existing non-executive directors of the Company, Mr. Pang Hon Chung, being an independent non-executive director of the Company, does not have a specific term of appointment. However, non-executive directors are subject to the requirement to retire by rotation at annual general meetings under the Company's Articles of Association accomplishing the same objective as a specific term of appointment.



Code Provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to Article 116 of the Articles of Association of the Company, at each annual general meeting, the number nearest to but not less than one-third of the directors (other than the chairman or the managing director or joint managing director) for the time being shall retire from office by rotation, provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Board considers that Mr. Ling, being the chairman and managing director of the Company, should not be subject to retirement by rotation to ensure continuity of leadership and stability for growth of the Company.

The Group's compliance with the provisions and recommended best practices of the CG Code together with reasons for any deviations are set out in the Corporate Governance Report contained in the Company's 2009 Annual Report issued on 24 July 2009.

## **MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted its code of conduct regarding the directors' securities transactions on terms no less exacting than the required standard set out in the Model Code as then in force, and after having made specific enquiry to all of the directors of the Company, the directors are satisfied that the required standard set out in the Model Code and its code of conduct regarding the directors' securities transactions have been fully complied with, throughout the accounting period covered by the interim report.

## **SECURITIES TRANSACTIONS BY RELEVANT EMPLOYEES**

Under Code Provision A.5.4, the Board has established written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the Company's securities. "Relevant employee" includes any employee of the Group or a director or employee of a subsidiary or holding company of the issuer, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Group and its securities. Having made specific enquiry of all Relevant Employees, the Company confirms that all Relevant Employees have complied with the written guidelines regarding securities transactions for the Period.

On behalf of the Board  
**LING Siu Man, Simon**  
*Chairman & Managing Director*

Hong Kong, 18 December 2009